

Agency Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	114.91	3.10	7.30	125.31	3.10	7.30	125.31	125.31
Personal Services	5,345,610	513,585	104,744	5,963,939	514,649	214,279	6,074,538	12,038,477
Operating Expenses	5,491,564	973,068	4,060,104	10,524,736	1,047,922	4,089,869	10,629,355	21,154,091
Equipment	38,651	0	0	38,651	0	0	38,651	77,302
Local Assistance	556,690,550	(42,640,590)	(4,769,407)	509,280,553	(48,915,139)	3,641,815	511,417,226	1,020,697,779
Grants	88,069,720	26,892,882	7,173,056	122,135,658	37,739,631	7,258,056	133,067,407	255,203,065
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$655,636,095</b>	<b>(\$14,261,055)</b>	<b>\$6,568,497</b>	<b>\$647,943,537</b>	<b>(\$9,612,937)</b>	<b>\$15,204,019</b>	<b>\$661,227,177</b>	<b>\$1,309,170,714</b>
General Fund	560,554,778	(42,207,732)	(4,953,159)	513,393,887	(48,477,057)	3,510,607	515,588,328	1,028,982,215
State/Other Special	1,092,119	(148,554)	862	944,427	(147,746)	3,643	948,016	1,892,443
Federal Special	93,898,407	28,186,022	11,520,794	133,605,223	39,102,657	11,689,769	144,690,833	278,296,056
Proprietary	90,791	(90,791)	0	0	(90,791)	0	0	0
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$655,636,095</b>	<b>(\$14,261,055)</b>	<b>\$6,568,497</b>	<b>\$647,943,537</b>	<b>(\$9,612,937)</b>	<b>\$15,204,019</b>	<b>\$661,227,177</b>	<b>\$1,309,170,714</b>

### Agency Description

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) provides distribution of funding and services to Montana's school-age children and to teachers in approximately 450 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services.

### Summary of Legislative Action

Office of Public Instruction	
Major Budget Highlights	
<p>The Office of Public Instruction budget falls by \$2.1 million in the 2005 biennium compared with fiscal 2002. This reduction is made up of the following changes:</p> <ul style="list-style-type: none"> <li>○ An increase of \$0.2 million general fund in OPI administration for all present law and new proposals</li> <li>○ An increase of \$12.4 million federal funds in OPI administration for all present law and new proposals</li> <li>○ A present law reduction of \$91.2 million in OPI distribution to schools, replaced by use of the guarantee account that statutorily appropriates common school interest and income for Base Aid and technology programs, and thus is no longer budgeted in HB 2</li> <li>○ An increase of \$64.8 million federal funds in the OPI distribution program for Title 1 and special education programs</li> <li>○ An increase of \$13.2 million federal funds in the OPI distribution program for the "No Child Left behind Act".</li> <li>○ A decrease of \$1.1 million general fund due to legislation impacting Base Aid to schools and special education</li> </ul> <p>The major piece of legislation was Senate Bill 424, discussed on the following page.</p>	

## Funding

The following table summarizes funding for the agency, by program and source, as adopted by the legislature.

<b>Total Agency Funding 2005 Biennium Budget</b>					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
State Level Activities	\$ 8,973,038	\$ 392,443	\$ 24,672,971	\$ 34,038,452	2.6%
Local Education Activities	1,020,009,177	1,500,000	253,623,085	1,275,132,262	97.4%
Grand Total	<u>\$ 1,028,982,215</u>	<u>\$ 1,892,443</u>	<u>\$ 278,296,056</u>	<u>\$1,309,170,714</u>	<u>100.0%</u>

## Other Legislation

Senate Bill 424 - SB 424 did the following:

- Increase school district entitlements by 1.1 percent in fiscal 2004 and by 2.07 percent in fiscal 2005
- Require federal funds to pay retirement costs for federally salaried employees, excluding school food and special education cooperative employees
- Eliminate HB 124 block grants to the county retirement accounts
- Increase district transportation funding - paid for by elimination of one-half of HB 124 block grants to district transportation funds
- Increase school facility reimbursements - paid for by eliminating all HB 124 block grants to school facility funds
- Establish inflation factors for entitlements in the 2007 biennium and beyond.

In addition, the legislature increased funding for special education by \$1.5 million in fiscal 2005. SB 424 reduces state obligations by \$1.9 million, which was added to HB 2 and is reflected in the main table.

Agency Budget Comparison								
Budget Item	Base Budget Fiscal 2002	Executive Budget Fiscal 2004	Legislative Budget Fiscal 2004	Leg – Exec. Difference Fiscal 2004	Executive Budget Fiscal 2005	Legislative Budget Fiscal 2005	Leg – Exec. Difference Fiscal 2005	Biennium Difference Fiscal 04-05
FTE	114.91	125.31	125.31	0.00	125.31	125.31	0.00	
Personal Services	5,345,610	5,978,202	5,963,939	(14,263)	5,973,602	6,074,538	100,936	86,673
Operating Expenses	5,491,564	11,124,736	10,524,736	(600,000)	11,229,355	10,629,355	(600,000)	(1,200,000)
Equipment	38,651	38,651	38,651	0	38,651	38,651	0	0
Local Assistance	556,690,550	509,078,607	509,280,553	201,946	514,094,221	511,417,226	(2,676,995)	(2,475,049)
Grants	88,069,720	111,517,289	122,135,658	10,618,369	116,073,205	133,067,407	16,994,202	27,612,571
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$655,636,095</b>	<b>\$637,737,485</b>	<b>\$647,943,537</b>	<b>\$10,206,052</b>	<b>\$647,409,034</b>	<b>\$661,227,177</b>	<b>\$13,818,143</b>	<b>\$24,024,195</b>
General Fund	560,554,778	509,129,075	513,393,887	4,264,812	513,892,683	515,588,328	1,695,645	5,960,457
State/Other Special	1,092,119	5,041,565	944,427	(4,097,138)	5,304,373	948,016	(4,356,357)	(8,453,495)
Federal Special	93,898,407	123,566,845	133,605,223	10,038,378	128,211,978	144,690,833	16,478,855	26,517,233
Proprietary	90,791	0	0	0	0	0	0	0
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$655,636,095</b>	<b>\$637,737,485</b>	<b>\$647,943,537</b>	<b>\$10,206,052</b>	<b>\$647,409,034</b>	<b>\$661,227,177</b>	<b>\$13,818,143</b>	<b>\$24,024,195</b>

## Executive Budget Comparison

The legislative budget for state level activities is approximately \$87,000 above the request by the Martz administration in the 2005 biennium. This includes an increase of \$186,000 in salaries and benefits due to HB 13 and an across the board reduction due to required vacancy savings of \$99,000.

The legislative budget for local education activities is \$23.9 million higher than the executive budget proposed by the Martz administration for the 2005 biennium. Federal funds in the legislative budget exceed the administration's request

by \$26.5 million and state funds in the legislative budget are \$2.5 million less than the administration's request. The legislature's general fund budget exceeds the executive's request by \$6.0 million, while the legislature's state special budget falls short of the executive's request by \$8.5 million.

The legislature did not approve executive recommendations for:

- Entitlement increases of 2 percent and 1 percent (the legislature approved increases of 1.1 and 2.07 percent)
- Expansion of the school facility program utilizing Treasure State Endowment interest revenues in a new state special revenue account
- Three year averaging of ANB
- Reduction of the direct state aid percentage from 44.7 percent to 42.6 percent
- Utilization of timber revenue for Base Aid
- Postponement of HB 124 block grant growth
- Institution of a teacher loan repayment program

The legislature did approve the following executive requests:

- Require federal funds be used to pay retirement costs for federally salaried employees
- Expansion of the school facility program by elimination of an equivalent amount in HB 124 block grants
- Expansion of state transportation aid funded through partial elimination of HB 124 block grants to district transportation funds

The legislative budget includes all present law adjustments approved by the executive. These included a reduction of \$15.0 million for enrollment declines since fiscal 2002, and an increase since fiscal 2002 of \$13.2 million for increased retirement GTB, Special Education, and other categorical items.

#### **Language**

"All federal funds are biennial."

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	114.91	3.10	7.30	125.31	3.10	7.30	125.31	125.31
Personal Services	5,345,610	513,585	104,744	5,963,939	514,649	214,279	6,074,538	12,038,477
Operating Expenses	5,363,314	866,308	4,060,104	10,289,726	941,162	4,089,869	10,394,345	20,684,071
Equipment	38,651	0	0	38,651	0	0	38,651	77,302
Local Assistance	19,301	0	0	19,301	0	0	19,301	38,602
Grants	0	0	600,000	600,000	0	600,000	600,000	1,200,000
Transfers	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$10,766,876</b>	<b>\$1,379,893</b>	<b>\$4,764,848</b>	<b>\$16,911,617</b>	<b>\$1,455,811</b>	<b>\$4,904,148</b>	<b>\$17,126,835</b>	<b>\$34,038,452</b>
General Fund	4,374,491	266,896	(183,752)	4,457,635	272,120	(131,208)	4,515,403	8,973,038
State/Other Special	185,369	8,196	862	194,427	9,004	3,643	198,016	392,443
Federal Special	6,116,225	1,195,592	4,947,738	12,259,555	1,265,478	5,031,713	12,413,416	24,672,971
Proprietary	90,791	(90,791)	0	0	(90,791)	0	0	0
<b>Total Funds</b>	<b>\$10,766,876</b>	<b>\$1,379,893</b>	<b>\$4,764,848</b>	<b>\$16,911,617</b>	<b>\$1,455,811</b>	<b>\$4,904,148</b>	<b>\$17,126,835</b>	<b>\$34,038,452</b>

### Program Description

The Administration Program provides leadership and coordination of services to a variety of school and public groups; staff provides assistance to the Superintendent of Public Instruction in performing the duties prescribed. The program:

1. Supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board;
2. Is responsible for the distribution and accounting of state and federal funds provided to school districts;
3. Provides operational support to OPI; and
4. Provides assistance and information to school districts.

The program also administers all federal grants received by OPI, including the budgets for:

1. Curriculum assistance;
2. Special education;
3. ESEA, Title I, II, III, IV, and VI administration, and
4. Other educational services including drivers' education, school food services, and audiology.

### Program Narrative

State Level Activities Major Budget Highlights
<ul style="list-style-type: none"> <li>○ The legislative budget for the Office of Public Instruction (OPI) administration increases by \$12.5 million above the fiscal 2002 base</li> <li>○ Of this amount, \$12.4 million is an increase in federal funds for implementation of the "No Child Left Behind Act"</li> <li>○ General fund increases \$224,056 as a result of implementation of HB 13, raising benefits in each year and a \$0.25 per hour salary increase in fiscal 2005; implementation of 2 percent vacancy savings; and general reductions due to budget cuts proposed by the Governor.</li> <li>○ FTE will increase by 10.4, an increase of 13.4 funded with federal and a decrease of 3.0 funded with general fund.</li> </ul>

## Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium.

Program Funding Table						
State Level Activities						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 4,374,491	40.6%	\$ 4,457,635	26.4%	\$ 4,515,403	26.4%
02001 School Lunch Program	78,367	0.7%	85,170	0.5%	86,913	0.5%
02402 Traffic & Safety Education	107,002	1.0%	109,257	0.6%	111,103	0.6%
03002 Public Instruction	6,116,225	56.8%	12,259,555	72.5%	12,413,416	72.5%
06067 Advanced Drivers Education	90,791	0.8%	-	-	-	-
Grand Total	\$ 10,766,876	100.0%	\$ 16,911,617	100.0%	\$ 17,126,835	100.0%

The Administration program is funded with a combination of general fund, state special revenue, federal funds and proprietary funds. General fund is used for personnel and operating expenses associated with the superintendents office, legal services, information technology, distribution to districts, curriculum services, accreditation, health enhancement and safety, educational equity and opportunity, special education, career technical and adult education. Federal funds are also used for these programs, and will increasingly be used to implement the "No Child Left Behind" Act. In fiscal 2002, OPI state level activities were funded 40.6 percent general fund and 56.8 percent from federal funds, with the rest from state special sources. Because of the large infusion of federal funds during the 2005 biennium, general fund will drop to 26.5 percent of total funding and federal funds will constitute 72.5 percent of total funding.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				824,186					825,712
Vacancy Savings				(242,856)					(242,930)
Inflation/Deflation				(2,223)					153
Fixed Costs				17,289					22,689
<b>Total Statewide Present Law Adjustments</b>				<b>\$596,396</b>					<b>\$605,624</b>
DP 30 - Federal Grant Award adjustments									
4.35	0	0	1,004,044	1,004,044	4.35	0	0	1,068,393	1,068,393
DP 45 - Advanced Driver Ed Enterprise - Removal from HB2									
(1.25)	0	0	0	(111,655)*	(1.25)	0	0	0	(111,655)*
DP 7000 - General adjustments, including special session									
0.00	(134,233)	1,040	24,301	(108,892)	0.00	(132,706)	1,142	25,013	(106,551)
<b>Total Other Present Law Adjustments</b>									
3.10	(\$134,233)	\$1,040	\$1,028,345	\$783,497*	3.10	(\$132,706)	\$1,142	\$1,093,406	\$850,187*
<b>Grand Total All Present Law Adjustments</b>				<b>\$1,379,893*</b>					<b>\$1,455,811*</b>

## Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 30 - Federal Grant Award adjustments - This is an adjustment in federal spending authority for grant awards currently administered by the Office of Public Instruction. The adjustments in federal grant awards are due to normal increases in federal funding and also the "No Child Left Behind Act of 2001" (NCLB) that reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB is an act to close the achievement gap with accountability, flexibility and choice. ESEA provides targeted resources to help ensure that disadvantaged students have access to a quality public education.

This adjustment also includes funding increases to programs separate from the Act. These funds are used in support of the administration and technical assistance of current federal grants. This is a biennial appropriation.

DP 45 - Advanced Driver Ed Enterprise - Removal from HB2 - The Advanced Driver Education program was changed to an enterprise program for the 2003 biennium. The legislature removed the authority from HB 2 and moved the authority into a non-HB 2 proprietary fund.

DP 7000 - General adjustments, including special session - The legislature approved the following general adjustments, including special session - contract rate increases for audiology, adjustment for publication of the school law book, indirect cost adjustments, and special session reductions

Contract rate increases include the following adjustments:

Following each legislative session, the Office of Public Instruction contracts with the Legislative Services Division (LSD) for the printing of an updated volume of School Laws of Montana. This adjustment will fund an anticipated increase in LSD's rates and an increase in postage costs. It also includes funding to print an additional 500 copies of the School Law book. Section 20-3-105 requires OPI to sell the School Law book at the cost of printing and shipping, so the cost of this adjustment will be recovered through an increase in the price charged for each volume sold. Revenue from the sale of School Law books is deposited in the general fund.

**Audiology:** Under the Individuals With Disabilities Education Act (IDEA) schools are required to have an effective child find system in place for individuals with disabilities from birth through twenty-one. The Hearing Conservation Program is the primary method in which public schools ensure proper identification of students who may have a hearing impairment.

Current contracts for the audiological program total \$344,862. The RFP, under which the Office of Public Instruction is now contracted, anticipated approximately a 3 percent increase per year, totaling \$10,346 in fiscal 2004 and \$21,003 in fiscal 2005. The legislature approved an additional \$22,000 per year for equipment replacement. Therefore, the total of the present law adjustment is \$32,346 for fiscal 2004 and \$65,003 for fiscal 2005.

Special session includes: Office supplies - \$4,104; 2/3 of equipment - \$25,067; and pay plan reduction - \$37,510. The Governor's reduction was incorporated into the special session version of HB 2 and also included a 3.5% reduction to this program.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 13 - Statewide Student Assessment										
06	0.00	253,250	0	0	253,250	0.00	263,250	0	0	263,250
DP 33 - Federal Assessment Requirement										
06	5.00	0	0	3,700,000	3,700,000	5.00	0	0	3,700,000	3,700,000
DP 34 - National Assessment of Educational Progress										
06	1.00	0	0	75,000	75,000	1.00	0	0	78,000	78,000
DP 35 - Advanced Placement Incentive										
06	0.50	0	0	50,154	50,154	0.50	0	0	50,123	50,123
DP 36 - Character Education										
06	1.30	0	0	75,000	75,000	1.30	0	0	75,000	75,000
DP 39 - Reading First										
06	1.50	0	0	610,000	610,000	1.50	0	0	625,000	625,000
DP 40 - REI / Rural Low Income Schools										
06	0.00	0	0	24,108	24,108	0.00	0	0	24,108	24,108
DP 43 - Title IV 21st Century Community Learning Centers										
06	1.00	0	0	140,000	140,000	1.00	0	0	140,000	140,000
DP 44 - Troops to Teachers										
06	0.00	0	0	253,467	253,467	0.00	0	0	254,829	254,829
DP 655 - Personal Services Reduction										
06	0.00	(49,649)	0	0	(49,649)	0.00	(49,649)	0	0	(49,649)
DP 6800 - HB 13 - Pay Plan										
06	0.00	14,515	862	20,009	35,386	0.00	62,289	3,643	84,653	150,585
DP 7020 - Reduction to balance the budget										
06	(3.00)	(401,868)	0	0	(401,868)	(3.00)	(407,098)	0	0	(407,098)
<b>Total</b>	<b>7.30</b>	<b>(\$183,752)</b>	<b>\$862</b>	<b>\$4,947,738</b>	<b>\$4,764,848</b>	<b>7.30</b>	<b>(\$131,208)</b>	<b>\$3,643</b>	<b>\$5,031,713</b>	<b>\$4,904,148</b>

### New Proposals

**DP 13 - Statewide Student Assessment** - The legislature approved general fund authority for a contract with a national testing service for the annual assessment of students in grades 4, 8, and 11 as required by the Board of Public Education (BPE) and the Elementary and Secondary Education Act of 1994. The estimated cost of continuing the testing service reflects the estimates provided by the contractor, Riverside Publishing Company. Funding of the adjustment would allow timely public access to education data, as well as provide national comparison data on the academic achievement of students in the core academic areas.

**DP 33 - Federal Assessment Requirement** - Section 1111(b) of the Elementary and Secondary Education Act (ESEA) as reauthorized by the "No Child Left Behind Act of 2001" requires states to develop and implement a single statewide accountability system that is:

- 1) Based on academic standards, and
- 2) Administered to all public elementary and secondary school students.

This adjustment creates and implements this test with federal revenue.

As required in a compliance agreement between the Montana Office of Public Instruction and the U.S. Department of Education and as required by the ESEA, a contract for an assessment instrument was signed with a vendor (after the Request for Proposal process) to provide testing of all Montana public school students in:

- 1) Reading and mathematics in grades 4, 8, and 11 in school years 2003-2004 and 2004-2005; and
- 2) Reading and mathematics in grades 3, 4, 5, 6, 7, 8, and 11 in 2005-2006 and beyond.

The cost of the contract for fiscal 2004 is \$2,499,850 and for fiscal 2005 is \$2,363,123. In addition, 5.00 FTE will administer the contract and will coordinate administration of the federally required assessment system, provide results to districts and the federal government, assure technical requirements are met, and assist educators in the use of assessment results to improve instruction. Funding will also provide for membership in a consortium of rural, western states to facilitate collaboration between states and to help eliminate duplication of effort. Additionally, funding may be used to

help provide a federally required test of English Language Proficiency for limited English proficiency students.

DP 34 - National Assessment of Educational Progress - Federal funding is provided to hire a National Assessment of Educational Progress (NAEP) State Administrator at OPI to assist with the implementation of NAEP in Montana. NAEP reading and mathematics assessments will be administered biannually to 4th and 8th grade students beginning in 2003. NAEP assessments in additional subjects at grades 4, 8, and 11 will also be conducted following appropriation of funds by the U.S. Congress. The NAEP State Administrator will coordinate the administration of NAEP within Montana; promote understanding of NAEP and its relevance to the state assessment program; coordinate the analysis and interpretation of NAEP data; and coordinate communication of NAEP information to school administrators, teachers, parents and the general public.

DP 35 - Advanced Placement Incentive - OPI has applied to participate in the federally funded Advanced Placement Incentive Program to reimburse a major portion of the cost, for low-income students, of taking advanced placement tests. In addition, the OPI is forming a consortium with the Office of the Commissioner of Higher Education to build a permanent system of support and services to enable low-income students to adequately prepare for challenging coursework in the higher grades and to enter and succeed in college.

DP 36 - Character Education - The goals of this federal grant are to create school and community environments that support the development and demonstration of character in youth; enhance student academic performance and interpersonal and civic skills; and design and implement an effective character education model program that will meet the unique needs of a rural, sparsely populated state, which can be duplicated in both rural and urban areas nationally.

DP 39 - Reading First - This new federal program replaces the Reading Excellence Act and helps states and local educational agencies utilize scientifically based reading research to implement comprehensive reading instruction for children in kindergarten through third grade.

The new program requires schools that receive grants to select and administer screening, diagnostic, and classroom-based instructional reading assessments to determine which students in kindergarten through grade 3 are at risk of reading failure. The program also requires provision of professional development for involved teachers in the essential components of reading instruction.

DP 40 - REI / Rural Low Income Schools - The legislature granted authority to coordinate and implement the provisions of the Rural Education Initiative's (REI) Rural Low Income Schools program (which is subpart 2 of the new federal ESEA law). This program provides funding to eligible school districts for teacher recruitment and retention, professional development, educational technology, parental involvement activities, safe and drug-free schools activities, language instruction activities and/or basic programs for improving the academic achievement of disadvantaged students.

The Rural Low Income (RLI) program provides new federal funds to school districts that are: (1) not eligible to participate in the REI program for small, rural schools (subpart 1 of the new federal ESEA law), (2) serve only schools with a school locale code of 6, 7 or 8 which designates the districts rural location, and (3) have a child poverty rate of at least 20 percent (i.e., at least 20 percent of the children aged 5-17 that are served by the district are from families with incomes below the poverty rate). Federal law provides for limited administrative funds (5 percent of the total state award) to coordinate and implement the RLI program.

DP 43 - Title IV 21st Century Community Learning Centers - The legislature granted authority to the Health Enhancement and Safety Division for an FTE and for administrative funds to coordinate and implement the 21st Century Community Learning Centers program. The program provides funding through a competitive grant process for local school districts, community based organizations and cooperative agreements between these groups to provide before-school, after-school, and summer school activities for school age children. Priority is given to schools with a high concentration of poor students and those schools determined to be in need of improvement. Activities must provide academic enrichment that complement regular school-based academic programs and provide literacy support to the families of students. The HES Division will implement the program and will arrange technical assistance and training



services to Montana schools and community-based organizations.

DP 44 - Troops to Teachers - OPI participates in the US Department of Defense and US Department of Education Troops-to-Teachers program. The program will assist 75 to 100 participants from Montana, Idaho, South Dakota, North Dakota, Wyoming and elsewhere to secure employment for the 2002-2003 school year.

The goal of the program is to recruit and assist military personnel in their pursuit of teaching as a second career, by identifying and facilitating the most appropriate route to certification and assisting participants to secure employment as public school teachers.

DP 655 - Personal Services Reduction - The legislature applied a further vacancy savings on general fund positions. The average for this agency is 1.1 percent on general fund and 0.3 percent on total funding.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

DP 7020 - Reduction to balance the budget - In order to balance the overall state budget the general fund available for OPI operations was reduced. Current level expenditures must be reduced by an additional \$808,962 for the 2005 biennium. OPI will accomplish this reduction through a variety of means, including elimination of three management or other relatively high paid positions, reducing the general fund budget for Carl Perkins match, eliminating the contract for grading GED exams and, as much as legally possible, switching the funding source for certain positions.

Three management positions will be eliminated for a savings of \$189,449 in fiscal 2004 and \$188,885 in fiscal 2005.

Operating expenditures in the Career Technical and Adult Education Division will be reduced to the minimum amount necessary to meet the federal match requirement for Carl Perkins funds, an annual reduction of \$19,480.

A contract for the grading of GED exams will be eliminated, saving \$9,820 each year.

The balance of the required biennial budget reduction (\$318,607) will be accomplished by, as much as legally possible, switching positions that are currently funded from the general fund to other funding sources. The positions that can be switched, and the other possible funding sources for those positions, will be determined at a later time.

As a result of the above reductions, indirect costs paid from the general fund will also be reduced by \$63,841 in fiscal 2004 and \$64,600 in fiscal 2005.

### **Language**

The legislature approved the following language be included in HB 2:

“Item 1 includes a reduction in general fund money of \$49,649 in fiscal 2004 and \$49,649 in fiscal 2005 for the statewide FTE reduction.”

## Proprietary Rates

### Program Description

OPI Indirect Cost Pool - OPI's internal service fund (A/E 06512) is used to pool internal and statewide central service type costs that are charged back to all of OPI's state and federally funded programs using a pre-approved indirect cost rate.

### Revenues and Expenses

#### Revenue Description

Indirect cost pool revenues are a function of the amount of expenditures recorded in the State Level Activities Program. Revenues are generated monthly by applying an approved indirect cost rate to the prior month's direct personal services and operating expenditures in both state and federally funded programs. Last fiscal year OPI federal programs contributed \$819,356 (SABHRS revenue account 593400) towards the cost of "indirects"; general and other state-funded programs contributed \$649,953 (SABHRS revenue account 520260). State and federal program payments to the indirect cost pool are recorded using SABHRS account 62827.

#### Expense Description

Costs of OPI operations that are paid from the indirect cost pool include:

- Termination payouts (vacation/comp time/sick leave) for all staff (except the State Superintendent and her personal staff).
- Services provided to OPI by other state agencies for a fee:
  - Depart. of Admin. (DofA) General Liability Insurance and Employee Bonds
  - DofA Warrant writing fees
  - DofA Payroll Service fees
  - DofA telephone equipment charges
  - DofA rent charge for common areas (bathrooms, halls, conference rooms)
  - Legislative Audit fees
  - DofA network service fees
  - Fish, Wildlife and Parks grounds maintenance fee
  - SABHRS
- OPI's share of statewide indirect costs, allocated through a Statewide Cost Allocation Plan (SWCAP) prepared by the Department of Administration.

Payroll, personnel, accounting, budgeting, data management, cash management, financial reporting, purchasing, word processing, mail delivery and resource center services to all OPI programs. Operating costs associated with 19.55 positions are paid from the pool, including the cost of rent for space they occupy, office supplies, postage, long distance phone charges, equipment, training, travel, photocopy charges, etc.

General-use items such as paper, FAX lines and shared equipment, including maintenance contracts on that equipment.

### Rate Explanation

OPI negotiates a three-year "predetermined rate" with the U.S. Department of Education. The rate is calculated in accordance with federal regulations and 17-3-111(1), MCA. The rate approved for fiscal years 2002 through 2004 is 17 percent. A new rate will be negotiated for the next three-year period based on actual costs incurred in fiscal year 2003. The legislature approved a rate at 17 percent for the 2005 biennium.

### Significant Present Law

The legislature concurred with the following adjustments when it established the rate:

- Employee termination costs (removed from the base)
- Statewide indirect costs (not billed by Department of Administration in base year)
- 2 FTE in the Information Technology Services Division to accommodate the workload increase that has resulted from an increase in OPI data management responsibilities under ESEA/NCLB. Revenue sufficient to pay for these additional services is included in OPI federal present law and new proposal decision packages.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	128,250	106,760	0	235,010	106,760	0	235,010	470,020
Local Assistance	556,671,249	(42,640,590)	(4,769,407)	509,261,252	(48,915,139)	3,641,815	511,397,925	1,020,659,177
Grants	88,069,720	26,892,882	6,573,056	121,535,658	37,739,631	6,658,056	132,467,407	254,003,065
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
<b>Total Costs</b>	<b>\$644,869,219</b>	<b>(\$15,640,948)</b>	<b>\$1,803,649</b>	<b>\$631,031,920</b>	<b>(\$11,068,748)</b>	<b>\$10,299,871</b>	<b>\$644,100,342</b>	<b>\$1,275,132,262</b>
General Fund	556,180,287	(42,474,628)	(4,769,407)	508,936,252	(48,749,177)	3,641,815	511,072,925	1,020,009,177
State/Other Special	906,750	(156,750)	0	750,000	(156,750)	0	750,000	1,500,000
Federal Special	87,782,182	26,990,430	6,573,056	121,345,668	37,837,179	6,658,056	132,277,417	253,623,085
NonExpendable Trust	0	0	0	0	0	0	0	0
<b>Total Funds</b>	<b>\$644,869,219</b>	<b>(\$15,640,948)</b>	<b>\$1,803,649</b>	<b>\$631,031,920</b>	<b>(\$11,068,748)</b>	<b>\$10,299,871</b>	<b>\$644,100,342</b>	<b>\$1,275,132,262</b>

### Program Description

The Local Education Activities program is used by OPI to distribute various state and federal funds to local education agencies.

### Program Narrative

#### Local Education Activities Major Budget Highlights

- Compared to the fiscal 2002 base, the legislative budget for OPI's distribution to schools program falls \$14.2 million, as a result of the guarantee fund switch exceeding higher federal revenues.
- However, as shown in the table below, with the guarantee account included, the legislative budget for OPI's distribution to schools program increases by \$77.3 million compared with the fiscal 2002 base, an increase of \$78.1 million in federal funds, and a decrease of \$0.8 million in state funds.
- Compared with present law for the 2005 biennium, the legislative budget for OPI's distribution to schools increases \$14.7 million in the 2005 biennium, an increase of \$13.2 million in federal funds and an increase of \$1.5 million in state funds. This represents the impact of legislation on OPI's distribution to schools in the 2005 biennium. Present law for the 2005 biennium included a reduction of \$15 million for lower enrollments, and an increase of \$13.2 million in other items, including retirement GTB and special education.

In summary the legislature:

- Removed the guarantee fund from HB 2
- Accepted all present law offered by the executive
  - A reduction of \$15.0 million for ANB reductions
  - An increase of \$13.2 million for other categorized items
- Accepted increases in federal funds of \$64.8 million in present law adjustments and \$13.0 million in new proposals
- Raised entitlements by 1.1 percent and 2.07 percent in fiscal years 2004 and 2005 for an increase of \$19.0 million.

- Made changes (summarized below) to retirement, transportation, school facilities, and HB 124 reimbursements
- Instituted entitlement inflation for 2007 biennium and beyond.

Legislative Budget for K-12 Distribution 2005 Biennium										
Fund Type	Fiscal 2002 Base Times Two		Spending in 2003 Biennium		Present Law 2005 Biennium	Executive Request 2005 Biennium	Legislative Budget 2005 Biennium			
General Fund	\$	1,112,360,574	\$	1,072,604,810	\$	1,021,136,769	\$	1,014,026,226	\$	1,020,009,177
State Special		1,813,500		5,956,750		1,500,000		9,958,000		1,500,000
Guarantee Account		-		47,271,424		89,290,000		90,190,000		91,876,849
Total State	\$	1,114,174,074	\$	1,125,832,984	\$	1,111,926,769	\$	1,114,174,226	\$	1,113,386,026
Federal		175,564,364		194,782,182		240,391,973		227,210,514		253,623,085
Total K-12 Distribution		1,289,738,438		1,320,615,166		1,352,318,742		1,341,384,740		1,367,009,111
Budget Differences										
Fund Type	Legislative Budget Less Fiscal 2002 Base Times Two		Present Law 2005 Bien Less FY2002 Base X Two		Legislative Budget Less 2003 Biennium		Legislative Budget Less Present Law		Legislative Budget Less Executive Request	
General Fund	\$	(92,351,397)		(91,223,805)		(52,595,633)		(1,127,592)		5,982,951
State Special		(313,500)		(313,500)		(4,456,750)		-		(8,458,000)
Guarantee Account		91,876,849		89,290,000		44,605,425		2,586,849		1,686,849
Total State		(788,048)		(2,247,305)		(12,446,958)		1,459,257		(788,200)
Federal	\$	78,058,721		64,827,609		58,840,903	\$	13,231,112	\$	26,412,571
Total K-12 Distribution	\$	<u>77,270,673</u>	\$	<u>62,580,304</u>	\$	<u>46,393,945</u>	\$	<u>14,690,369</u>	\$	<u>25,624,371</u>

**ANB**

The figure on the following page shows Average Number Belonging (ANB), a measure of the number of students for which entitlements and other state funding were budgeted during the session. Compared with fiscal 2003, ANB are expected to decline 2,234 in fiscal 2004 and by 4,958 in fiscal 2005.

Average Number Belonging (ANB) in Montana Schools							
Fiscal Year	Elementary	Percent Change	High School	Percent Change	Total	Percent Change	
<b>Actual &amp; Present Law</b>							
A	1994	111,507		45,443		156,950	
A	1995 *	114,772	2.9%	47,818	5.2%	162,590	3.6%
A	1996	114,734	0.0%	49,045	2.6%	163,779	0.7%
A	1997	114,160	-0.5%	50,582	3.1%	164,742	0.6%
A	1998	112,449	-1.5%	51,432	1.7%	163,881	-0.5%
A	1999	109,852	-2.3%	51,885	0.9%	161,737	-1.3%
A	2000	107,724	-1.9%	52,022	0.3%	159,746	-1.2%
A	2001	106,014	-1.6%	51,524	-1.0%	157,538	-1.4%
A	2002	103,633	-2.2%	50,794	-1.4%	154,427	-2.0%
A	2003	101,133	-2.4%	50,366	-0.8%	151,499	-1.9%
E	2004	99,436	-1.7%	49,989	-0.7%	149,265	-1.5%
E	2005	97,333	-2.1%	49,329	-1.3%	146,541	-1.8%
* includes for the first time, students who spend more than 1/2 day in special education class							
A = Actual; E = Estimated							

## Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium.

Program Funding Table							
Local Education Activities							
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005	
01100 General Fund	\$ 510,539,670	79.2%	\$ 508,936,252	80.7%	\$ 511,072,925	79.3%	
01101 General Fund Guarantee Account	45,640,617	7.1%	-	-	-	-	
02018 Guarantee Fund	156,750	0.0%	-	-	-	-	
02402 Traffic & Safety Education	750,000	0.1%	750,000	0.1%	750,000	0.1%	
03170 Grant Clearance Discretionary	87,782,182	13.6%	121,345,668	19.2%	132,277,417	20.5%	
Grand Total	\$ 644,869,219	100.0%	\$ 631,031,920	100.0%	\$ 644,100,342	100.0%	

Distribution to Schools, General Fund, State Special, and Federal Funds							
Description	Base Budget 2002	PL Base Adjustments Fiscal 2004	New Proposals Fiscal 2004	Total Fiscal 2004	PL Base Adjustments Fiscal 2005	New Proposals Fiscal 2005	Total Fiscal 2005
<b>General Fund</b>							
Direct State Aid	\$ 322,166,465	\$ (46,533,319)	\$ 5,755,038	\$ 281,388,184	\$ (50,608,358)	\$ 12,759,167	\$ 284,317,274
GTB - School General Fund	97,988,462	(445,344)	-	97,543,118	(3,840,210)	-	94,148,252
GTB - School Retirement	18,553,969	3,801,623	-	22,355,592	4,383,325	-	22,937,294
School Facility Reimbursement	4,216,183	33,817	4,020,735	8,270,735	143,817	4,051,293	8,411,293
Special Education	33,904,056	1,008,584	-	34,912,640	1,008,584	1,500,000	36,412,640
Transportation	10,318,969	81,031	1,700,000	12,100,000	81,031	1,700,000	12,100,000
Instate Treatment	604,272	370,624	-	974,896	370,624	-	974,896
Secondary Vo Ed	714,910	90	-	715,000	90	-	715,000
Adult Basic Ed	275,000	-	-	275,000	-	-	275,000
Gifted & Talented	140,788	9,212	-	150,000	9,212	-	150,000
School Food	648,653	-	-	648,653	-	-	648,653
Other	139,275	4,200	-	143,475	8,500	-	147,775
Other District HB 124 Block Grants	46,290,560	(280,052)	-	46,010,508	126,504	-	46,417,064
School Facility Block Grants	3,990,408	-	(4,020,735)	(30,327)	-	(4,051,293)	(60,885)
District Transportation Block Grants	3,493,321	-	(1,759,981)	1,733,340	-	(1,773,357)	1,719,964
County HB124 Block Grants	12,734,996	(525,094)	(10,464,464)	1,745,438	(432,296)	(10,543,995)	1,758,705
<b>Total General Fund</b>	<b>\$ 556,180,287</b>	<b>\$ (42,474,628)</b>	<b>\$ (4,769,407)</b>	<b>\$ 508,936,252</b>	<b>\$ (48,749,177)</b>	<b>\$ 3,641,815</b>	<b>\$ 511,072,925</b>
<b>State Special Revenue</b>							
Timber Harvest for Technology	\$ 156,750	\$ (156,750)	\$ -	\$ -	\$ (156,750)	\$ -	\$ -
Traffic Safety Distribution	750,000	-	-	750,000	-	-	750,000
<b>Total State Special</b>	<b>\$ 906,750</b>	<b>\$ (156,750)</b>	<b>\$ -</b>	<b>\$ 750,000</b>	<b>\$ (156,750)</b>	<b>\$ -</b>	<b>\$ 750,000</b>
<b>Federal Special Revenue</b>							
Federal School Foods Programs	\$ 18,486,009	\$ -	\$ -	\$ 18,486,009	\$ -	\$ -	\$ 18,486,009
ESEA - Title I	28,764,748	12,188,522	-	40,953,270	17,720,000	-	46,484,748
ESEA Title II - Teacher & Principal Training	1,550,970	14,509,064	-	16,060,034	14,509,064	-	16,060,034
ESEA Title III-Tech Literacy Challenge	1,272,819	(1,137,580)	-	135,239	(1,137,580)	-	135,239
ESEA Title IV Drug Free Schools	1,523,416	150,000	-	1,673,416	150,000	-	1,673,416
ESEA Title V & VI - Innovative Ed	1,674,190	250,000	-	1,924,190	250,000	-	1,924,190
ESEA Title VII - Immigrant Ed	26,701	(17,606)	-	9,095	(17,606)	-	9,095
IDEA	17,168,458	10,539,702	-	27,708,160	15,854,973	-	33,023,431
Adult Basic Education	1,267,724	140,000	-	1,407,724	140,000	-	1,407,724
Carl Perkins	2,903,237	190,000	-	3,093,237	190,000	-	3,093,237
School to Work	2,036,748	(2,036,748)	-	-	(2,036,748)	-	-
Education of Homeless Children	53,703	50,000	-	103,703	50,000	-	103,703
Learn and Serve Montana	42,607	-	-	42,607	-	-	42,607
Reduced Class Size BL	7,536,684	(7,536,684)	-	-	(7,536,684)	-	-
Advanced Placement Fee Reimb	158,174	106,760	-	264,934	106,760	-	264,934
Emergency School Renovation	1,955,178	(850,000)	-	1,105,178	(850,000)	-	1,105,178
Comprehensive School Reform	821,024	20,000	-	841,024	20,000	-	841,024
Workplace Essentials	21,700	-	-	21,700	-	-	21,700
Reading Excellence	518,092	-	-	518,092	-	-	518,092
Language Acquisition	-	425,000	-	425,000	425,000	-	425,000
Community Service Grant Pgm	-	-	250,000	250,000	-	250,000	250,000
Reading First	-	-	2,890,000	2,890,000	-	2,975,000	2,975,000
REI/Rural Low Income Schools	-	-	458,056	458,056	-	458,056	458,056
Character Education	-	-	175,000	175,000	-	175,000	175,000
Title IV-21st Cent Comm Learn Ctrs	-	-	2,800,000	2,800,000	-	2,800,000	2,800,000
<b>Total Federal Special</b>	<b>\$ 87,782,182</b>	<b>\$ 26,990,430</b>	<b>\$ 6,573,056</b>	<b>\$ 121,345,668</b>	<b>\$ 37,837,179</b>	<b>\$ 6,658,056</b>	<b>\$ 132,277,417</b>
<b>Funding</b>							
Total General Fund	\$ 556,180,287	\$ (42,474,628)	\$ (4,769,407)	\$ 508,936,252	\$ (48,749,177)	\$ 3,641,815	\$ 511,072,925
Total State Special	906,750	(156,750)	-	750,000	(156,750)	-	750,000
Total Federal Special	<u>87,782,182</u>	<u>26,990,430</u>	<u>6,573,056</u>	<u>121,345,668</u>	<u>37,837,179</u>	<u>6,658,056</u>	<u>132,277,417</u>
<b>Total Distribution to Public Schools</b>	<b>\$ 644,869,219</b>	<b>\$ (15,640,948)</b>	<b>\$ 1,803,649</b>	<b>\$ 631,031,920</b>	<b>\$ (11,068,748)</b>	<b>\$ 10,299,871</b>	<b>\$ 644,100,342</b>
<b>Statutory Appropriations</b>							
Guarantee Account - Interest & Income	\$ -	\$ 44,273,000	\$ 521,537	\$ 44,794,537	\$ 44,017,000	\$ 1,433,683	\$ 45,450,683
Guarantee Account -Timber (HB537)	-	-	132,134	132,134	1,000,000	499,495	1,499,495
<b>Total Statutory</b>	<b>\$ -</b>	<b>\$ 44,273,000</b>	<b>\$ 653,671</b>	<b>\$ 44,926,671</b>	<b>\$ 45,017,000</b>	<b>\$ 1,933,178</b>	<b>\$ 46,950,178</b>

### Legislative Action Impacting Schools

House Bill 2 provided the appropriation for the 2005 biennium distribution to schools. A number of bills implementing changes in state spending were passed. A summary of the legislative action follows:

<b>Distribution to Schools - Legislation 2005 Biennium</b>		
	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
<b>SB424</b>		
BASE Aid	6,893,400	12,730,900
Transportation Aid	1,700,000	1,700,000
School Facilities	4,020,735	4,051,293
HB124 Block Grants	<u>(16,435,035)</u>	<u>(16,559,942)</u>
<b>Total SB424</b>	(3,820,900)	1,922,251
<b>HB002 - Special Education</b>	<u>-</u>	<u>1,500,000</u>
<b>SB454 - Adjust HB 124 Block Grants</b>		
Base Aid	(33,000)	(33,150)
HB124 Block Grants	189,855	191,297
<b>SB461 - Mitigate Reappraisal</b>	680,000	1,560,000
<b>HB135 - Base Aid</b>	-	(16,100)
<b>HB002 - Base Aid / I&amp;I</b>	(14,317)	(20,243)
<b>SB130 - Base Aid / I&amp;I</b>	(254,220)	(508,440)
<b>SB409 - Base Aid / I&amp;I</b>	300,000	-
<b>HB537 - Base Aid / I&amp;I</b>	<u>40,000</u>	<u>-</u>
<b>SUM - All Other</b>	908,318	1,173,364
<b>Total</b>	(4,247,870)	5,075,498
<b>Net Biennium</b>		<u>827,628</u>
I&I refers to interest and income revenue deposited in the guarantee account, which in addition to the appropriation in HB2 is used to pay for base aid and the timber for technology programs. The bills with this designation had no impact on Base aid itself, but reflect legislated changes in I&I revenue, thus impacting the HB2 share of of Base Aid.		

Senate Bill 424 - SB 424 reduces state spending relative to present law by \$3.8 million in fiscal 2004 and raises state spending by \$1.9 million in fiscal 2005.

### Entitlements

SB424 increases the district general fund entitlements by 1.1 percent in fiscal 2004 and by 2.07 percent in fiscal 2005. This will add \$4.9 million in state spending above present law in fiscal 2004 and \$14.1 million in fiscal 2005, and more than counter-acts the \$15.1 million in state present law savings due to enrollment declines during the 2005 biennium.

The figure below shows the changes in entitlements as a result of SB424:

<b>K-12 Entitlement Changes - SB424</b>					
	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Percent Change</u>	<u>Fiscal 2005</u>	<u>Percent Change</u>
Elementary Basic Entitlement	\$ 19,244	\$ 19,456	1.10%	\$ 19,859	2.07%
High School Basic Entitlement	\$ 213,819	\$ 216,171	1.10%	\$ 220,646	2.07%
Elementary Per-ANB Entitlement	\$ 3,906	\$ 3,949	1.10%	\$ 4,031	2.07%
High School Per-ANB Entitlement	\$ 5,205	\$ 5,262	1.10%	\$ 5,371	2.07%

### *Retirement*

Beginning in fiscal 2004, the amount a district or cooperative may charge to the county retirement fund for its employees' retirement costs (i.e. payments to the teachers' retirement system, social security and Medicare, and unemployment insurance) for all employees who are paid from a federal funding source is limited to the amount that the district or cooperative charged to the retirement fund for the same purpose for the same group of employees in school fiscal year 2003. In effect, this will reduce costs paid by the county retirement fund by approximately \$1.3 million, of which the state share is a savings of \$0.3 million in fiscal 2004.

Beginning in fiscal 2005, SB 424 requires school districts to pay employee retirement costs out of the fund from which the employee is funded, with exceptions for employees funded by a special education cooperative inter-local fund, the district's school food services fund and any other state or local fund. In effect, this will mean that the retirement costs for employees funded by federal funds will be paid for out of federal funds, except for the exceptions noted. Previous law required the county retirement fund to pay these costs. As a result of this change the county retirement fund will save approximately \$13.1 million in costs in the fiscal 2005, and of this amount \$4.0 million is savings in state retirement GTB costs.

SB424 eliminated HB 124 block grants to both the elementary and high school county retirement accounts beginning in fiscal 2004. Under prior law, the county retirement accounts were scheduled to receive \$10.5 million per year in HB 124 block grants in the 2005 biennium. Because the state will no longer make these payments, local property taxes and state retirement GTB aid will backfill this amount. State retirement GTB will increase by \$2.2 million in fiscal 2004 and by \$2.3 million in fiscal 2005.

### *Transportation*

SB 424 changed the method by which district transportation costs are funded. Under previous law, on-schedule costs (the amount paid for on a 50-50 basis by the state and county taxpayers) were 85 cents per mile driven for the smallest bus size plus an additional 2.13 cents per bus mile for each additional passenger seating position, unless the bus was less than half full. This required counting passengers on the bus. SB 424 eliminated counting requirements and established the following per-mile reimbursement based on bus size capacity. The rate for each bus mile is:

- 95 cents for a bus with a rated capacity not more than 49 seating positions,
- \$1.15 for a school bus with a rated capacity of 50-59 seating positions,
- \$1.36 for a school bus with a rated capacity of 60-69 seating positions,
- \$1.57 for a school bus with a rated capacity of 70-79 seating positions,
- \$1.80 for a school bus with a rated capacity of 80 or more seating positions, and
- Nonbus mileage must be reimbursed at 50 cents per mile.

In addition, SB 424 eliminated prior law that required a count of high school bus riders, and a special point system for handicapped students.

The cost to the state as a result of the transportation portion of SB 424 is \$1.7 million in additional transportation costs in each year of the 2005 biennium. SB 424 eliminates one-half of the HB 124 block grants for the district transportation fund, an amount slightly less than \$1.8 million in each year of the 2005 biennium.

### *School Facility Reimbursements*

SB 424 expands the school facility reimbursement program by:

- Increasing the guaranteed mill value per ANB multiplier from 121 percent to 140 percent
- Increasing the school facility entitlements to \$300 per ANB from \$220 for an elementary, to \$450 per ANB from \$330 for a high school, and to \$370 per ANB from \$270 for an approved junior high school or middle school.
- Expanding eligibility to the program to those districts with bonds that were sold prior to July 1, 1991.

The increased costs to the state as a result of the school facility changes are \$4.0 million in fiscal 2004 and \$4.1 million in



fiscal 2005. To offset this increased cost, SB 424 eliminates HB 124 block grants from the state to districts' school facility accounts, resulting in state savings of a like amount.

### *Inflation Factor*

Beginning July 1, 2005, SB424 requires the superintendent of public instruction to determine an inflation factor for the basic and per-ANB entitlements for the 2007 biennium and each future biennium. The inflation index is the July 1 value of the Consumer Price Index, all urban consumers, using the 1982-1984 base. The inflation factor for fiscal 2006 will be the CPI index number for calendar 2003 divided by the CPI index number for calendar 2000, with the resulting ratio raised to the power of one-third. The inflation factor for fiscal 2007 will be the CPI index number for calendar 2004 divided by the CPI index number for calendar 2001, with the resulting ratio raised to the power of one-third.

### *Use of District Flex Fund*

SB 424 finally allows revenues in the district flexibility fund to be used for teacher recruitment, retention, and retirement incentives if money provided in HB 2 is available for that purpose. The legislature through language allowed such a use if grant monies become available.

Senate Bill 454 - Beginning in July 1, 2003, SB 454 changes the HB 124 block grants to the county retirement accounts and the county transportation account to adjust for more accurate data on actual motor vehicle revenue in fiscal 2001. HB 124 block grants are based on fiscal 2001 data.

Senate Bill 461 - Beginning for tax year 2003, SB 461 mitigates the impact of reappraisal on class 4 residential and commercial property and class 3 agricultural land. See Volume 2 - Revenue estimates - for an explanation of the property tax provisions of SB 461. Reappraisal would have saved the state Base Aid if it had been allowed to proceed unmitigated. The mitigation increases Base Aid by \$680,000 in fiscal 2004 and by \$1.6 million in fiscal 2005.

House Bill 135 - Beginning July 1, 2003, students who are enrolled in private day-treatment under an approved individualized education program will no longer count for Average Number Belonging (ANB) purposes. Because ANB counts lag enrollment counts by one year, the impact on the general fund will be a savings of \$16,100 less BASE aid in fiscal 2005.

Other bills affected the House Bill 2 appropriation for Base Aid by either increasing or decreasing revenue to the guarantee account that also pays a portion of Base Aid. These bills are:

House Bill 2 - The amount of money appropriated from certain accounts inversely impacts the amount of revenue deposited to other accounts. Although these revenue amounts are estimated prior to the session based on appropriations requested in the Executive Budget, final appropriations set by the legislature may differ. Because the legislature changed appropriations from the trust land administration account, revenue to the guarantee account and the statutory appropriation for Base Aid are expected to increase by \$13,890 in fiscal 2004 and decrease \$129,383 in fiscal 2005. Because these numbers were not available at the time the HB 2 Base Aid appropriation for HB 2 was set, the HB 2 Base Aid appropriation was adjusted downward by \$14,317 in fiscal 2004 and by \$20, 234 in fiscal 2005.

Senate Bill 409 - The Department of Natural Resources and Conservation is authorized to conduct various inventories and assessments of land acquired in the Crown Butte land exchange. The department estimates that archaeological surveys and market assessments will cost \$300,000 for the biennium to be paid from common school trust mineral royalties deposited to the trust land administration account. Since mineral royalties net of amounts deposited to the account are deposited to the guarantee account and statutorily appropriated for BASE aid, revenues to the guarantee account will decrease by \$300,000. Thus, the HB 2 Base Aid appropriation was adjusted upward by \$300,000.

Senate Bill 130 - The Board of Land Commissioners is authorized to enter into an agreement with the Department of Fish, Wildlife and Parks to compensate trust land beneficiaries for allowing hunting, fishing, and trapping on trust lands. A person who hunts, fishes, or traps on state lands would then not be required to purchase a recreational use license. The legislation also increases the resident and nonresident conservation licenses by \$2.00. The increased compensation to

trust beneficiaries is estimated to be \$242,022 in fiscal 2004 and \$484,045 in fiscal 2005. Of these amounts, \$216,158 in fiscal 2004 and \$432,316 in fiscal 2005 is income from the Common School Trust. In addition, because the trust receives five percent of all interest and income, the trust is estimated to grow \$11,377 in fiscal 2004 and \$22,753 in fiscal 2005. The HB 2 Base Aid appropriation was adjusted downward by \$254,220 in fiscal 2004 and by \$508,440 in fiscal 2005. These numbers differ from those above due to changes in the fiscal note to SB130 after the HB 2 Base Aid appropriation was set.

House Bill 537 - The Department of Natural Resources and Conservation is directed to commission a new study to determine the annual sustainable yield on forested state lands. The department estimates that the new study will cost \$40,000 to be paid from the trust land administration account. Since increased expenditures from the account result in less money deposited to the guarantee account, the guarantee account revenues and the statutory appropriation for BASE aid will decrease by \$40,000. As a result, the HB 2 Base Aid appropriation was adjusted upward by \$40,000.

Until the new study is completed, the legislation directs the department to set the annual timber sale target at 50 million board feet. Since the current sustainable annual harvest rate is 42.2 million board feet, additional timber harvest will result in additional revenue. It is estimated that revenue to the guarantee account to purchase school technology will increase \$132,134 in fiscal 2004 and \$499,495 in fiscal 2005. This money is statutorily appropriated.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Adjust K-12 Base Aid	0.00	574,423	0	0	574,423	0.00	(7,481,926)	0	0	(7,481,926)
DP 2 - Adjust State Transportation Aid	0.00	81,031	0	0	81,031	0.00	81,031	0	0	81,031
DP 3 - Special Ed. State Maintenance of Fiscal Effort	0.00	1,008,584	0	0	1,008,584	0.00	1,008,584	0	0	1,008,584
DP 5 - School Facility Reimbursement	0.00	33,817	0	0	33,817	0.00	143,817	0	0	143,817
DP 8 - School District Audit Filing Fee annual increase	0.00	4,200	0	0	4,200	0.00	8,500	0	0	8,500
DP 10 - Biennial Appropriations	0.00	379,926	0	0	379,926	0.00	379,926	0	0	379,926
DP 31 - Federal Grants - increase in current grants	0.00	0	0	26,990,430	26,990,430	0.00	0	0	37,837,179	37,837,179
DP 49 - Guarantee Account - Statutory Appropriations	0.00	(45,640,617)	(156,750)	0	(45,797,367)	0.00	(45,640,617)	(156,750)	0	(45,797,367)
DP 50 - Guarantee Account Adjustment	0.00	1,889,154	0	0	1,889,154	0.00	3,057,300	0	0	3,057,300
DP 51 - School Block Grants established in HB124 and HB18	0.00	(805,146)	0	0	(805,146)	0.00	(305,792)	0	0	(305,792)
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>(\$42,474,628)</b>	<b>(\$156,750)</b>	<b>\$26,990,430</b>	<b>(\$15,640,948)</b>	<b>0.00</b>	<b>(\$48,749,177)</b>	<b>(\$156,750)</b>	<b>\$37,837,179</b>	<b>(\$11,068,748)</b>
<b>Grand Total All Present Law Adjustments</b>					<b>(\$15,640,948)</b>					<b>(\$11,068,748)</b>

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Adjust K-12 Base Aid - This present law adjustment reflects a projected \$6.9 million savings to the state general fund for K-12 BASE aid due to declining enrollment, increasing retirement costs, and additional Base aid in the general fund due to reduced common school interest and income revenues in the guarantee fund. This is a restricted biennial appropriation.

DP 2 - Adjust State Transportation Aid - This present law adjustment establishes the fiscal 2004 and fiscal 2005 appropriations for state transportation aid payments at \$10.4 million, \$81,031 higher than the base year amount. State transportation payments are made based on a statutory formula based on bus miles and ridership. State payments to schools for the transportation of students have been growing slowly over the past several years, but have recently leveled out. This is a restricted biennial appropriation.

DP 3 - Special Ed. State Maintenance of Fiscal Effort - The base year expenditure is \$33,904,640. The state special education allocation in HB 2 in fiscal 2003 is \$34,912,640. Federal Maintenance of Effort requirements require that no reduction can be made in subsequent years. Appropriating a lesser amount than in fiscal 2003 will result in a dollar for dollar reduction in federal funding for special education. This is a restricted biennial appropriation.

DP 5 - School Facility Reimbursement - This present law adjustment is to establish the fiscal 2004 and fiscal 2005 appropriations for school facility payments at \$4.25 million each year, slightly less than the fiscal 2003 appropriated amount of \$4.45 million. School facility reimbursements are wealth-based payments to districts to help pay for debt service associated with bonds sold after July 1, 1991. This is a restricted biennial appropriation.

DP 8 - School District Audit Filing Fee annual increase - This increase will allow OPI to pay school district audit filing fees in accordance with the Department of Administration's fee schedule, which is based on the amount of school district revenues. Payment of this fee from OPI to the Department of Administration is required by Section 2-7-514(2), MCA. This increase assumes school district revenues will increase 3 percent each year. Base year expenditures are \$139,275. This is a biennial appropriation.

DP 10 - Biennial Appropriations - This present law adjustment establishes biennial appropriations in each year at half of the amount appropriated for the 2003 biennium. The biennial appropriations include instate treatment (\$974,897 per year), Secondary Vo-ed (\$715,000 per year), Adult Basic Ed (\$275,000 per year), Gifted and Talented (\$150,000 per year) and School Foods (\$648,653 per year). These programs have either federal maintenance of effort requirements, or federal matching requirements. The biennial appropriations have been at these levels for many years.

DP 31 - Federal Grants - increase in current grants - The adjustments in current federal grant awards are due in part to the "No Child Left Behind Act of 2001" (NCLB) that reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB is an act to close the achievement gap with accountability, flexibility and choice, so that no child is left behind. ESEA provides targeted resources to help ensure that disadvantaged students have access to a quality public education. This adjustment also includes funding increases to programs separate from the Act. These funds will be distributed to the school districts. This is a biennial appropriation. The figure below lists these grants.

Federal Grant Awards Present Law Adjustments			
Programs Increased	Base 2002	Increase / Decrease	
		Fiscal 2004	Fiscal 2005
ESEA - Title I	\$ 28,764,748	\$ 12,188,522	\$ 17,720,000
ESEA Title II - Teacher & Principal Training	-	16,152,508	16,152,508
ESEA Title IV Drug Free Schools	1,523,416	150,000	150,000
ESEA Title V & VI - Innovative Ed	1,674,190	250,000	250,000
IDEA	17,168,458	10,539,702	15,854,973
Adult Basic Education	1,267,724	140,000	140,000
Carl Perkins	2,903,237	190,000	190,000
Education of Homeless Children	53,703	50,000	50,000
Advanced Placement Fee Reimb	158,174	106,760	106,760
Comprehensive School Reform	821,024	20,000	20,000
Language Acquisition	-	425,000	425,000
Total	\$ 54,334,674	\$ 40,212,492	\$ 51,059,241
<b>Programs Eliminated or Reduced</b>			
ESEA Title II - Eisenhower Prof Development	\$ 1,550,970	\$ (1,643,444)	\$ (1,643,444)
ESEA Title III-Tech Literacy Challenge	1,272,819	(1,137,580)	(1,137,580)
ESEA Title VII - Immigrant Ed	26,701	(17,606)	(17,606)
School to Work	2,036,748	(2,036,748)	(2,036,748)
Reduced Class Size BL	7,536,684	(7,536,684)	(7,536,684)
Emergency School Renovation	1,955,178	(850,000)	(850,000)
Total	\$ 14,379,100	\$ (13,222,062)	\$ (13,222,062)
Total All Programs	\$ 68,713,774	\$ 26,990,430	\$ 37,837,179

DP 49 - Guarantee Account - Statutory Appropriations - This present law adjustment removes appropriation authority for Base aid from the general fund in the 2005 Biennium. A portion of Base aid payments to schools will be statutorily appropriated from the new guarantee fund in fiscal year 2004 and 2005. The amount removed (\$45.6 million each year) is the amount of common school interest and income actually spent in fiscal 2002 out of the general fund.

DP 50 - Guarantee Account Adjustment - This increases general fund Base aid to account for expected reductions in common school interest and income deposited in the guarantee account in fiscal 2004 and fiscal 2005 compared to what was received in fiscal 2002. The amount added to general fund Base aid authority is \$1.9 million in fiscal 2004 and \$3.1 million in fiscal 2005.

DP 51 - School Block Grants established in HB124 and HB18 - This adjustment continues the block grants to schools and counties at the level stated in HB 18 of the August 2002 special session. HB 18 reduced HB 124 block grants to the county education accounts in fiscal 2003. Ongoing block grants in fiscal 2004 and fiscal 2005 are also reduced since they are based on the average of block grants in fiscal 2002 and fiscal 2003, with growth of 0.76 percent per year. The reduction in HB 124 block grants for the 2005 biennium is \$1.1 million. This is a restricted biennial appropriation.

New Proposals											
Program	FTE	Fiscal 2004				Fiscal 2005				Federal Special	Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special		
DP 32 - Community Service Grant Program											
09	0.00	0	0	250,000	250,000	0.00	0	0	250,000	250,000	
DP 37 - Character Education											
09	0.00	0	0	175,000	175,000	0.00	0	0	175,000	175,000	
DP 39 - Reading First - Federal Title I, Part B, Subpart 1											
09	0.00	0	0	2,890,000	2,890,000	0.00	0	0	2,975,000	2,975,000	
DP 41 - REI / Rural Low Income Schools											
09	0.00	0	0	458,056	458,056	0.00	0	0	458,056	458,056	
DP 43 - Title IV 21st Century Community Learning Centers											
09	0.00	0	0	2,800,000	2,800,000	0.00	0	0	2,800,000	2,800,000	
DP 51 - Increase Base Aid											
09	0.00	5,755,038	0	0	5,755,038	0.00	12,759,167	0	0	12,759,167	
DP 52 - Increase Transportation Aid											
09	0.00	1,700,000	0	0	1,700,000	0.00	1,700,000	0	0	1,700,000	
DP 53 - Increase School Facilities											
09	0.00	4,020,735	0	0	4,020,735	0.00	4,051,293	0	0	4,051,293	
DP 54 - Increase Special Education											
09	0.00	0	0	0	0	0.00	1,500,000	0	0	1,500,000	
DP 55 - Reduce HB124 Block Grants											
09	0.00	(16,245,180)	0	0	(16,245,180)	0.00	(16,368,645)	0	0	(16,368,645)	
<b>Total</b>	<b>0.00</b>	<b>(\$4,769,407)</b>	<b>\$0</b>	<b>\$6,573,056</b>	<b>\$1,803,649</b>	<b>0.00</b>	<b>\$3,641,815</b>	<b>\$0</b>	<b>\$6,658,056</b>	<b>\$10,299,871</b>	

### New Proposals

**DP 32 - Community Service Grant Program** - The legislature authorized five new proposals for federal spending. The figure below shows the new Federal grant awards.

Federal Grant Awards New Proposals		
Award	Fiscal 2004	Fiscal 2005
Community Service Grant Pgm	\$ 250,000	\$ 250,000
Character Education	\$ 175,000	\$ 175,000
Reading First	2,890,000	2,975,000
REI/Rural Low Income Schools	458,056	458,056
Title IV-21st Cent Comm Learn Ctrs	2,800,000	2,800,000
Total	\$ 6,573,056	\$ 6,658,056

This is a federal grant to implement a program under which students expelled or suspended from school are required to perform community service. This program is authorized within Title IV of the No Child Left Behind Act of 2001.

Montana is allocated \$250,000 in each year of the biennium from federal sources to support the program. Federal guidance has not been issued. Therefore, no further information regarding intent or intended outcomes is currently available.

**DP 37 - Character Education** - The Character Education Program is funded by the U.S. Department of Education and provides grants to five pilot sites to promote character education throughout Montana. The goals of this grant are to create school and community environments that support the development and demonstration of character in youth; enhance student academic performance and interpersonal skills; and design and implement an effective character education model program that will meet the unique needs of a rural, sparsely populated state, which can be duplicated in both rural and urban areas nationally. The amount available for distribution is \$175,000 per year.

**DP 39 - Reading First - Federal Title I, Part B, Subpart 1** - This is a new federal program (replacing the Reading Excellence Act) to help states and local educational agencies utilize scientifically based reading research to implement comprehensive reading instruction for children in kindergarten through third grade. The amount available for distribution is expected to be \$5.9 million for the biennium.

This adjustment requires sub-grantees to select and administer screening, diagnostic, and classroom-based instructional reading assessments to determine which students in kindergarten through grade 3 are at risk of reading failure. It also requires sub-grantees to provide professional development, for teachers of students in kindergarten through grade 3 and

special education teachers of students in kindergarten through grade 12, in the essential components of reading instruction.

DP 41 - REI / Rural Low Income Schools - The legislature granted authority to the Accreditation Division of OPI to spend flow-through funds for distribution to schools under the provisions of the Rural Education Initiative's (REI) Rural Low Income Schools program (which is subpart 2 of the new federal ESEA law). This program provides funding to eligible school districts for teacher recruitment and retention, professional development, educational technology, parental involvement activities, safe and drug-free schools activities, language instruction activities and/or basic programs for improving the academic achievement of disadvantaged students (Title I Part A programs). The amount available for distribution is expected to be \$0.9 million for the biennium.

The Rural Low Income (RLI) program provides new federal funds to school districts that are: (1) not eligible to participate in the REI program for small, rural schools (subpart 1 of the new federal ESEA law), (2) serve only schools with a school locale code of 6, 7 or 8 which designates the districts rural location, and (3) have a child poverty rate of at least 20 percent (i.e., at least 20 percent of the children aged 5-17 that are served by the district are from families with incomes below the poverty rate). Federal law provides for formula funding of eligible districts (95 percent of the total state award) to provide the services authorized under the RLI program.

DP 43 - Title IV 21st Century Community Learning Centers - The legislature granted authority to the Health Enhancement and Safety Division to spend flow-through funds to implement the 21st Century Community Learning Centers program. The program provides funding through a competitive grant process for local school districts, community based organizations and cooperative agreements between these groups to provide before-school, after-school, and summer school activities for school age children. Priority is given to schools with a high concentration of poor students and those schools determined to be in need of improvement. Activities must provide academic enrichment that complement regular school-based academic programs and provide literacy support to the families of students. The HES Division will implement the program and will arrange technical assistance and training services to Montana schools and community-based organizations. The current funding level within the HES Division is not sufficient to allow the OPI to provide this academic support service to schools. The amount available for distribution is expected to be \$5.6 million for the biennium.

DP 51 - Increase Base Aid – This decision package increases entitlements by 1.1 percent in fiscal 2004 and 2.07 percent in fiscal 2005. This also increases retirement GTB Base Aid for the SB 424 retirement proposal and for the Base aid increase associated with SB 461, the reappraisal mitigation proposal. The increase also reflects the impact of bills which add or subtract from revenues in the guarantee fund. The net biennial increase is \$18.5 million.

DP 52 - Increase Transportation Aid – This decision package increases state aid to district transportation fund as legislated in SB 424. The legislation increases the on-schedule costs that are reimbursable by the state and county by \$3.4 million, of which the state share is 50 percent.

DP 53 - Increase School Facilities – This decision package increases state GTB aid to districts for bond repayments by eliminating the restriction that only per-1991 bonds are eligible, increasing the per ANB facility entitlements, and increasing the guaranteed mill value per ANB. These provisions were in SB 424.

DP 54 - Increase Special Education – This decision package increases the special education appropriation by \$1.5 million in fiscal 2005.

DP 55 - Reduce HB124 Block Grants – This decision package reduces HB 124 block grants by eliminating HB 124 block grants to county retirement accounts and district school facility accounts, and by reducing by one-half the HB 124 block grants to district transportation accounts. These provisions were in SB 424.

### **Language**

“All revenue received in the state traffic education account for distribution to schools under the provisions of 20-7-506

and 61-5-121 is appropriated as provided in Title 20, chapter 7, part 5. This appropriation may not exceed \$1 million per year.”

“The office of public instruction may distribute funds from the appropriation in item [in-state treatment] to public school districts for the purpose of providing for educational costs of children with significant behavioral or physical needs.”

“There is appropriated in the 2005 biennium in item 2r [Flex Fund] an amount equal to any grants designated for school district staff recruitment, retention, or retirement incentives, up to \$5 million.”

“Item 2s [Flex Fund – Coal Tax Trust] is appropriated from the coal severance tax permanent fund principal. This appropriation is subject to the provisions of [Section 8].”

“If Senate Bill No. 424 is not passed and approved, then the following line items will be reduced or increased by the following amounts: item 2a. BASE Aid (6,893,400) fiscal year 2004, (12,730,900) fiscal year 2005; item 2b. Special Education (1,500,000) fiscal year 2005; item 2c. Transportation Aid (1,700,000) fiscal year 2004, (1,700,000) fiscal year 2005; item 2d. School Facility Reimbursement (4,020,735) fiscal year 2004, (4,051,293) fiscal year 2005; and item 2q. HB 124 County and District Block Grants 16,245,180 fiscal year 2004, 16,368,645 fiscal year 2005.”